

Strategy Memo

April 2024

Strategy Memo

Communications, Industrials, Consumer Discretionary, Financials and Energy Drive Growth in Mar'24

In Mar'24, the markets sustained their upward trajectory, culminating in a remarkable conclusion to FY24. The Nifty 50 recorded a notable gain of 1.57%, while our benchmark index, the BSE500 TR, saw an increase of 0.86% over the month. Notably, March witnessed substantial outperformance by large-cap stocks compared to Small and Midcaps.

Both our Pure Growth and Pure Contra strategies have generated positive returns for Mar'24 with Pure Growth delivering 1.32% returns (46bps outperformance to the index) while Pure Contra generated 0.47% returns for the month (39bps underperformance to our index). Over the past year, both strategies have consistently outperformed their respective benchmarks by 3.31% and 21.32%, respectively (net of expenses), which gives us immense satisfaction.

In Mar'24, we observed that Consumer Discretionary, Communications, Industrials, Materials, Financials and Energy outperformed the index. On the other hand, IT, Utilities and Real Estate underperformed the index and gave absolute negative returns for the month. Our Pure Growth strategy benefited from our overweight position in Consumer Discretionary and Communication Services as well as our underweight position in IT, Utilities, and Real Estate. Stocks in this strategy that showcased notable outperformance included Jio Financial Services, Indus Towers, Wockhardt, Praj Industries, Sun Pharma, Bharti Airtel, ICICI Bank, CIE Automotive, and Maruti Suzuki. On the flip side, Religare Enterprises, RBL Bank, KDDL, HPCL, eClerx, Engineers India, Bandhan Bank, Varun Beverages and One97 Communications were amongst the main laggards.

Our Pure Contra strategy was supported by our overweight calls on Consumer Discretionary and Communication Services along with underweight calls on IT and Real Estate. Stocks that significantly contributed to overall returns included Indus Towers, Kirloskar Brothers, Voltamp Transformers, ITC, Suven Pharma, Wockhardt Pharma, CIE Automotive, REC, ICICI Bank, Tata Motors DVR, Aarti Industries and Vedanta, amongst others. On the other hand, Jain Irrigation, TVS Holdings, HPCL, RBL Bank, Engineers India, Glaxo Pharma, SBI Life, Power Grid, M&M, Lupin, and KDDL weighed on the overall performance of our portfolio.



Nishit, through his diverse experience in both Buy side and Sell side firms brings in a fresh perspective on markets at Axis Securities. As Fund Manager, he is responsible for generating superior risk adjusted returns for customers as per their mandate.

Nishit has more than 18 years of experience in the financial services industry and has worked with various companies like ING Investment Management, Kotak Mahindra Bank, Elara Capital, Reliance Securities, AnandRathi, MotilalOswal Financial Services etc.

In this strategy note, we will discuss one of the stocks that have outperformed in the recent past. We continue to like the company and it continues to be a part of both our 'Pure Contra as well as Pure Growth' strategies. The company is '**Indus Towers**'.

About Indus Towers

Indus Towers Limited is India's leading provider of passive telecom infrastructure and it deploys, owns and manages telecom towers and communication structures for various mobile operators. The company's portfolio of over 2,11,000 telecom towers, makes it one of the largest tower infrastructure providers in the country with a presence in all 22 telecom circles. Indus Towers caters to all wireless telecommunication service providers in India.

High competitive intensity in the sector leads to business case for Independent Tower Companies

The Indian telecommunications industry is renowned for its fierce competition, particularly intensified following the entry of Jio. The focus of Indian operators in the last ten years or so has been to develop an affordable mass-market telecommunications service model that allows for service availability across India's urban and rural areas at affordable prices. A strong focus on the optimization of operational expenses through the outsourcing of noncore areas, process innovation, cost-to-serve alignment and strategic partnerships has also resulted in steady growth of the tower industry. It is more economical for operators to lease towers from tower companies rather than build them for captive use.

In order to capitalize on the opportunities for tower sharing in the Indian telecommunications market, Bharti Airtel, Vodafone India, and Idea Cellular had agreed to establish Indus Towers as an independently managed joint venture that provides non-discriminatory shared tower services to all wireless telecommunications service providers. This has been the genesis for the birth of Indus Towers.

Improvement at Vodafone Idea (Vi) to drive growth and tenancy

Vi has launched a Rs 180 Bn FPO priced between Rs 10/share and Rs11/share. This follows the announcement of a preferential allotment to Aditya Birla Group of Rs 20.75 Bn at Rs14.87/share. Between the two, the company will raise ~Rs 200 Bn equity. As per the FPO prospectus, Rs 127 Bn out of the Rs 180 Bn will be allotted towards Capex (4G coverage, capacity, and 5G coverage), Rs 23 Bn towards past auction dues, and Rs 30 Bn towards general corporate purposes. We believe that a Rs 200 Bn equity infusion (if successful) would pave the way for debt raising (est. Rs 200 Bn at D/E of 1x). This would enable Vi to step up Capex and narrow the gap in coverage and capacity vs. peers. Vi could potentially spend Rs 500 Bn Capex over FY25-27 which should help it stem subscriber churn.

From a tower count perspective, Vi would most likely raise its mobile broadband location count from the current ~170k to 250k over the next two years. This could boost Indus Towers' tenancy ratio to ~1.95x from the current 1.7x. Higher tenancy would mean better revenues, profitability and higher RoEs for Indus Towers. We believe this will lead to a re-rating of the stock, especially when investors start factoring in a three-player mobile market in future from the current assumption of a two-player market with an additional feeble presence of Vi.

With Vi's financials improving, Indus Towers should recover past receivables to the tune of ~Rs 60 Bn and start paying handsome dividends from FY25 onwards. Generally, Indus Towers has given 100% of its FCF generation as dividend, which means the dividend yield for FY25 and FY26 at current price levels could be 4.4% and 7.2% respectively, which remains very attractive.

Outlook, Financial Performance and Valuations

We expect Indus Towers to report a revenue CAGR of 12.9% over FY24-26E while EBITDA and PAT are expected to grow at a CAGR of 15.3% and 18.2% respectively over the same period. RoEs from the lows of 11.1% in FY23 are expected to inch towards 30% in FY26.

At a PER of 15.7x of FY25 estimated earnings and 12.1x of FY26 estimated earnings along with robust earnings growth of over 18%, we believe the stock remains cheap at the current market levels. We thus remain positive on the stock.

Particulars (RsMn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	27,087	28,382	28,754	31,929	36,671
EBITDA	14,271	9,669	14,084	16,105	18,735
EBITDA Margins (%)	52.7	34.1	49.0	50.4	51.1
PAT	5,743	2,533	5,523	5,922	7,712
FDEPS (Rs/share)	21.3	9.4	20.5	22.0	28.6
PER (x)	16.2	36.8	16.9	15.7	12.1
BVPS (Rs/share)	82.2	78.3	93.3	100.3	105.3
P/BV (x)	4.2	4.4	3.7	3.4	3.3
RoE (%)	33.5	11.1	23.1	23.3	31.7
RoCE (%)	29.7	13.0	19.0	21.1	27.2

Source: Industry

Risk to our thesis

- 1) A lack of price hikes by telecom players in the next one or two years may impede their ability to incur further Capex.
- 2) Change in technology which lowers usage of towers
- 3) Entry of new players could be a risk but it seems unlikely at the moment

Happy Investing!

Nishit Master

Summary of Portfolio Changes Made in Mar'24

In Mar'24, we made the following changes to both our portfolios to factor in the changing market dynamics.

Growth Strategy changes

Scrip Name	Action	Weight	Remark
LINDE (INDIA) LIMITED	SOLD	1.7%	Booked profits on expensive valuations after a significant up-move in price even with poor financial performance
INDUS TOWERS LIMITED	BOUGHT	3.0%	Improving business environment with receivables from Vodafone Idea normalizing
BANDHAN BANK LIMITED	SOLD	3.1%	Asset quality issues persist with delays in getting CGFMU claims
BALKRISHNA INDUSTRIES LIMITED	BOUGHT	1.0%	Improving export outlook after completion of de-stocking cycle
WOCKHARDT LIMITED	BOUGHT	1.0%	Key product WCK5222 is likely to complete Phase 3 trials in FY25 with current cases witnessing very high efficacy and safety profile

Contra Strategy changes

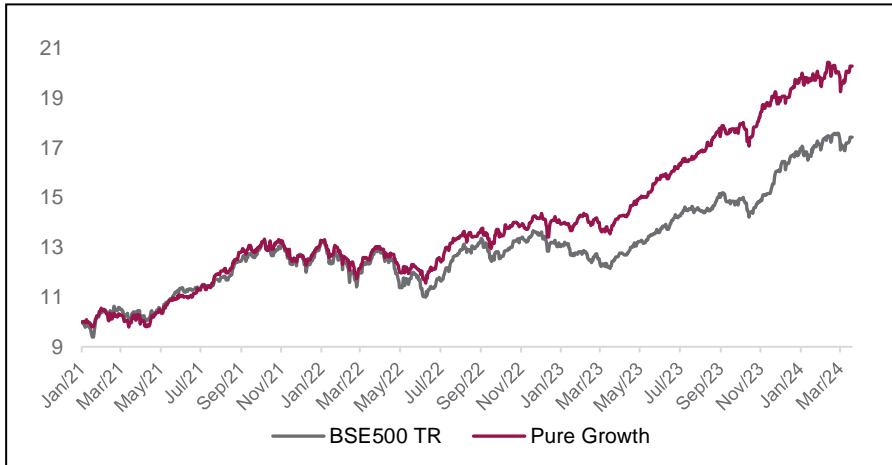
Scrip Name	Action	Weight	Remark
WOCKHARDT LIMITED	BOUGHT	1.0%	Key product WCK5222 is likely to complete Phase 3 trials in FY25 with current cases witnessing very high efficacy and safety profile
GLAXO SMITHKLINE PHARMA LIMITED	SOLD	2.9%	Poor Q3FY24 results on account of NLEM impact

Axis Pure Growth

31st March 2024

Investment Objective: Axis Pure Growth strategy focuses on parameters comprising sustainable earnings growth, quality, and low volatility. The core investment styles are growth and quality investing while low volatility and alpha investing are other key styles employed depending on the macroeconomic regime.

Cumulative Performance: Returns



Annual Performance (%)

Year	Growth	BSE500 TR
2024 (YTD)	3.6%	4.3%
2023	35.9%	26.8%
2022	8.7%	4.8%
2021*	25.5%	25.8%

*effective 13 Jan 2021

Portfolio Performance

Particulars	1 month	3 months	6 months	1 year	2 years*	3 years*	Since inception**
Growth	1.32%	4.04%	12.98%	43.47%	23.72%	23.98%	22.52%
BSE500 TR	0.86%	4.49%	17.40%	40.16%	17.84%	19.30%	18.82%

(*CAGR Returns) (* Net of all charges) (**Since 13th Jan. 2021)

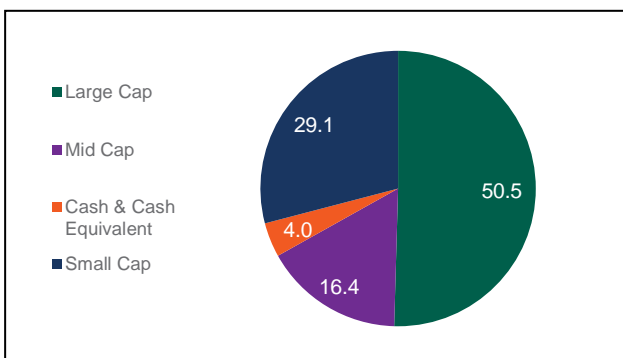
Risk Assessment

	Growth	BSE500 TR
Sharpe Ratio	1.18	0.83
Volatility	13.0%	14.3%
Portfolio Beta	0.78	1
Max Drawdown	-13.2%	-17.6%
Information Ratio	0.48	
Average Turnover Ratio	0.53	

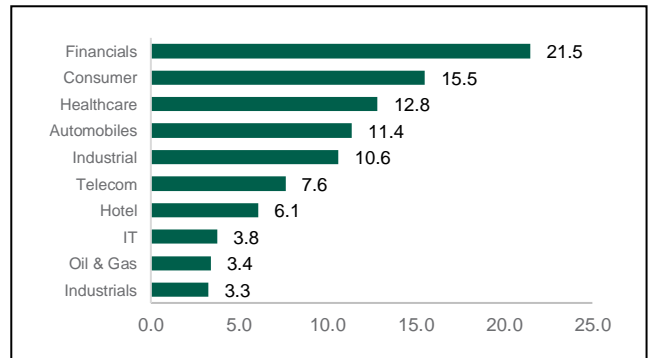
Key Portfolio Ratios

	Growth	BSE500 TR
PE	36.88	26.49
PB	4.92	4.04
ROE	13.34%	14.91%
Dividend Yield	0.63%	1.10%

Market Capitalization



Sector Allocation



MANAGED ACCOUNTS

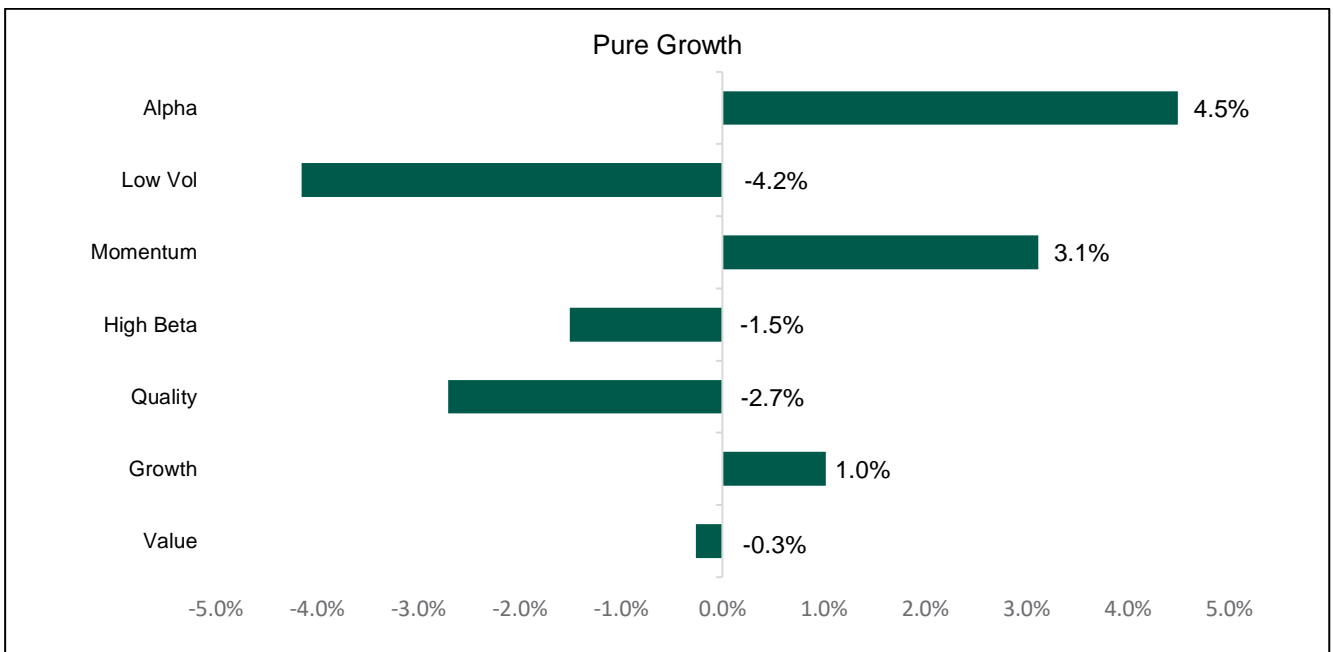
Top 10 Holdings

Scrip Name	Market Cap (Cr)	Weight
Sun Pharmaceutical	3,83,812	7.8%
Bharti Airtel Ltd	7,12,810	7.6%
Varun Beverages Ltd	1,88,425	6.7%
Jio Financial Services	2,34,595	6.7%
ICICI Bank Ltd	7,63,455	6.4%
Indian Hotels Co Ltd	86,132	6.1%
Maruti Suzuki India	4,04,482	6.1%
Gillette India Ltd	21,479	4.9%
CIE Automotive India	18,217	4.3%
Ajanta Pharma Ltd	26,889	4.0%

Portfolio Characteristics

	Growth
Number of constituents	24
Mcap Largest (Cr)	11,74,938
Mcap Smallest (Cr)	3,218
Mcap Average (Cr)	1,91,770
Mcap Median (Cr)	37,046

Factor Box



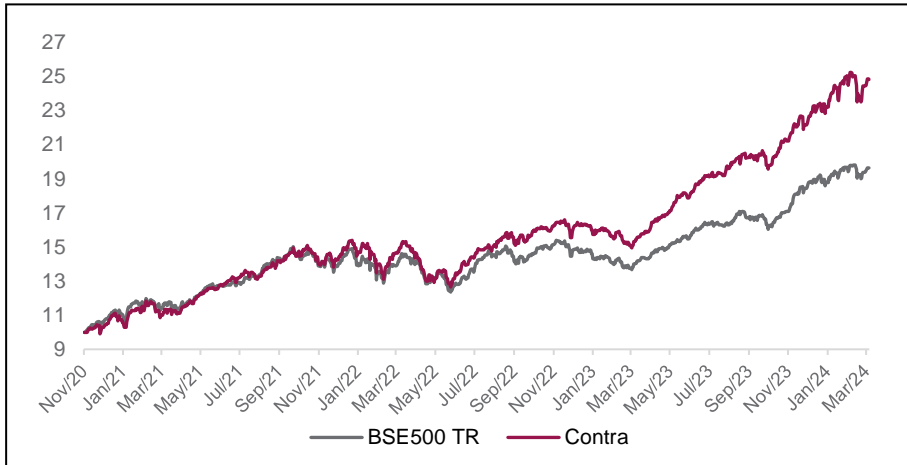
The Factor Box provides relative factor exposure vis-à-vis a given benchmark. For instance, if the Growth factor exposure in a portfolio is 23% and the Growth factor exposure of the Benchmark is 20%, it indicates that your portfolio is "Overweight" on Growth with respect to the benchmark. A positive Value in the above Factor represents that the given portfolio is Overweight in the factor with respect to the benchmark. Similarly, a negative value would represent that the given portfolio is underweight in the factor with respect to the benchmark.

Axis Pure Contra

31st March 2024

Investment Objective: Axis Pure Contra investment strategy focuses on three primary investment styles – Value, Momentum-Alpha, and Special situations investing. Value, Alpha-Momentum form the core factors while Special Situation investing is employed as a satellite factor.

Cumulative Performance: Returns



Annual Performance (%)

Year	Contra	BSE500 TR
2024 (YTD)	8.6%	4.3%
2023	39.5%	26.8%
2022	9.7%	4.8%
2021*	36.5%	31.0%

*effective 01 Jan 2021

Portfolio Performance

Particulars	1 month	3 months	6 months	1 year	2 years*	3 years*	Since inception**
Contra	0.47%	9.41%	22.04%	61.48%	28.28%	29.17%	29.60%
BSE500 TR	0.86%	4.49%	17.40%	40.16%	17.84%	19.30%	22.49%

(*CAGR Returns) (* Net of all charges) (**Since 27th Nov, 2020)

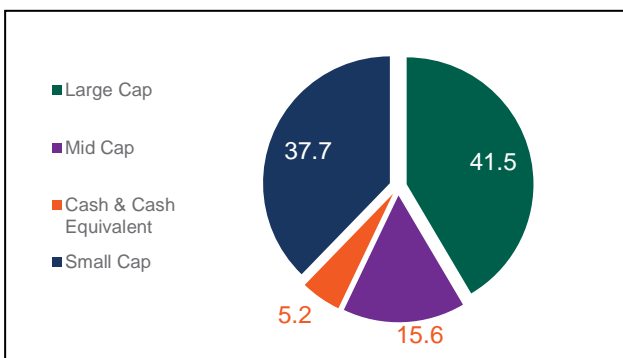
Risk Assessment

	Contra	BSE500 TR
Sharpe Ratio	1.45	1.07
Volatility	15.6%	14.3%
Portfolio Beta	0.98	1
Max Drawdown	-17.9%	-17.6%
Information Ratio	1.04	
Average Turnover Ratio	0.73	

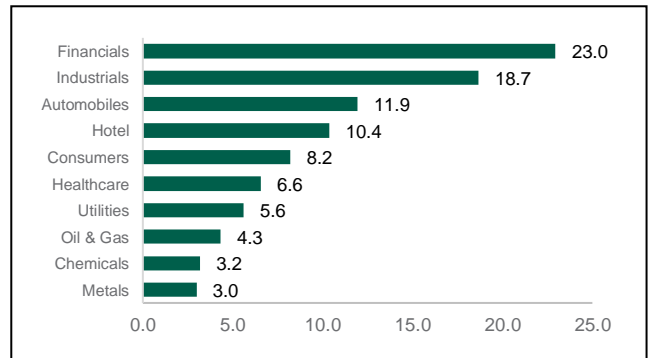
Key Portfolio Ratios

	Contra	BSE500 TR
PE	19.11	26.49
PB	2.99	4.04
ROE	15.63%	14.91%
Dividend Yield	1.96%	1.10%

Market Capitalization



Sector Allocation



MANAGED ACCOUNTS

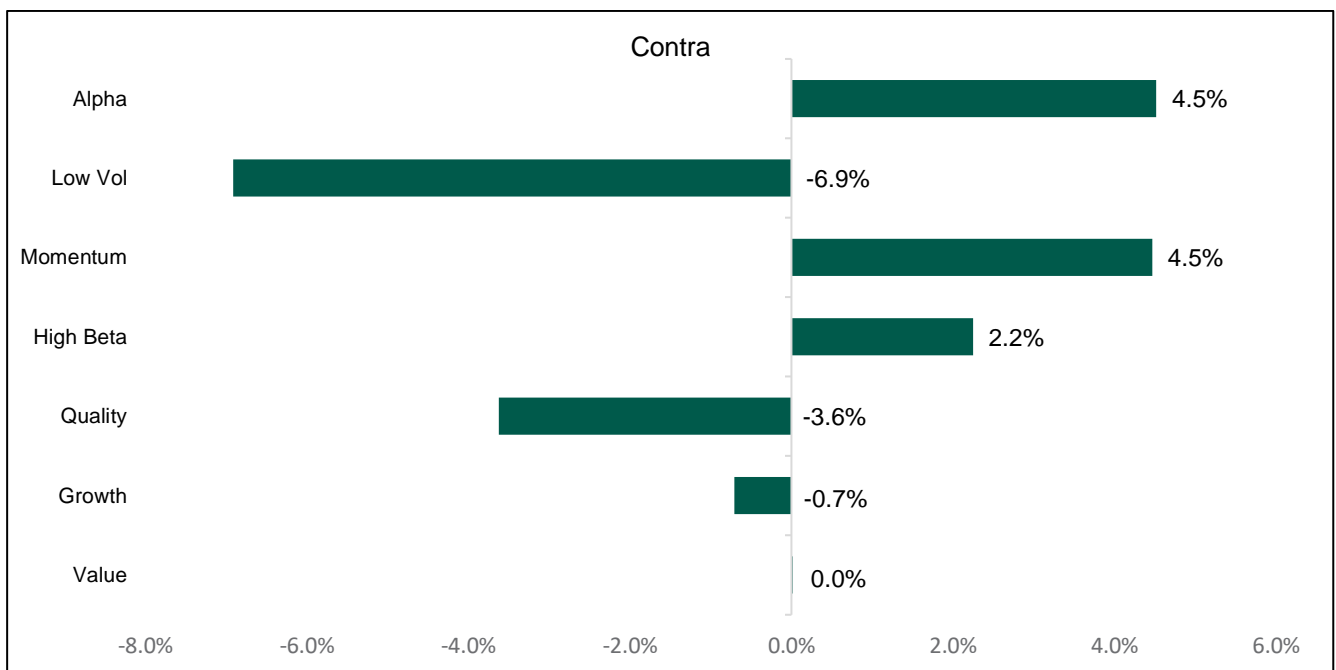
Top 10 Holdings

Scrip Name	Market Cap (Cr)	Weight
Indus Towers Ltd	88,340	6.4%
Power Grid Corp Of India	2,62,045	5.6%
State Bank Of India	6,85,678	5.6%
Indian Hotels Co Ltd	86,132	5.4%
Thomas Cook (India) Ltd	8,241	5.0%
ITC Ltd	5,35,719	4.6%
Mahindra & Mahindra Ltd	2,58,418	4.5%
Hindustan Petroleum Corp	65,665	4.3%
ICICI Bank Ltd	7,63,455	4.0%
Tata Motors Ltd DVR	3,70,854	3.9%

Portfolio Characteristics

	Contra
Number of constituents	26
Mcap Largest (Cr)	7,63,455
Mcap Smallest (Cr)	3,218
Mcap Average (Cr)	1,48,774
Mcap Median (Cr)	69,561

Factor Box



The Factor Box provides relative factor exposure vis-à-vis a given benchmark. For instance, if the Growth factor exposure in a portfolio is 23% and the Growth factor exposure of the Benchmark is 20%, it indicates that your portfolio is “Overweight” on Growth with respect to the benchmark. A positive Value in the above Factor represents that the given portfolio is Overweight in the factor with respect to the benchmark. Similarly, a negative value would represent that the given portfolio is underweight in the factor with respect to the benchmark.

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Risk Disclosure Document (RDD)-Please visit <https://simplehai.axisdirect.in/> go to support and then select downloads & Search for PMS RDD.

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